

Topic: Ansoff's Matrix

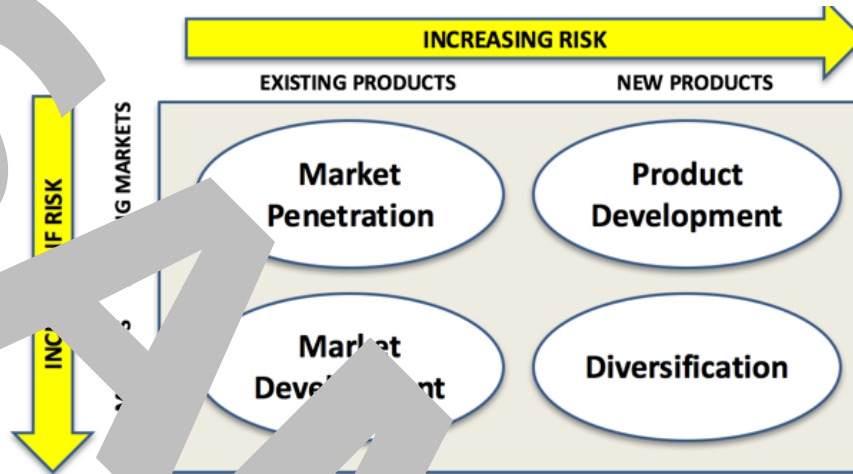
3.1 Business Objectives and Strategy

What You Need to Know

Development of corporate strategy: Ansoff's Matrix

What is the Ansoff Matrix?

The Ansoff is a famous marketing planning model that helps a business determine its **product and market** strategy.



The matrix identifies four different approaches to product and market strategy based around whether a business chooses to focus on existing / new products and existing / new markets.

Each of the four sections of the matrix can be summarised as follows:

Market Penetration

This is a growth strategy where a business aims to sell **existing products into existing markets**

Key points:

- Aim: to **increase market share**
- By selling more existing products to the same target customers
- Get existing customers to buy more
- Widen the range of existing products

Evaluating market penetration:

- Business focuses on markets and products it knows well
- Can exploit insights on what customers want (and competitors)
- Unlikely to need significant new market research
- But will the strategy allow the business to achieve its growth objectives?

Product Development

This is a growth strategy where a business aims to introduce **new products into existing markets**

Key points:

Topic: Ansoff's Matrix

3.1 Business Objectives and Strategy

- This strategy is driven by investment in new product development
- Usually requires consistent, long-term investment in research & development
- Technological innovation provides significant opportunities for product development strategies
- Brand extensions are also examples of product development

Evaluating product development:

- This is a strategy that often plays to the strengths of an established business
- Strong emphasis on effective market research (insights into customer needs) and successful innovation
- A good way of exploiting the existing customer base who may respond positively to new products

Market Development

A growth strategy for a business seeking to sell its **existing products into new markets**

Key points:

There are various types of approach to strategy of market development – such as

- New geographical markets (exporting to emerging markets)
- New distribution channels (e.g. using e-commerce and mail order)
- Different pricing policies to attract new customers in different segments

Evaluating market development:

- A logical strategy when a market is saturated or in decline
- Often riskier than product development, particularly expansion into international markets
- Existing products may not suit a new market or meet customer needs

Diversification

A growth strategy where a business markets **new products in new markets**

Key points:

Possible approaches to diversification:

- Innovation & R&D: develop new solutions
- Acquire an existing business in the market
- Extend an existing brand into the new market

Evaluating product development:

- Inherently risky strategy
- No direct experience of the product or market
- Few economies of scale (initially)
- However, if successful, overall risk of the business is spread

Topic: Reasons for Staying Small

3.2 Business Growth

What You Need to Know

- Small business survival in competitive markets:
- Product differentiation and USPs
- Flexibility in responding to customer needs
- Customer service
- E-commerce

The Objectives of Smaller Businesses

Very few businesses (in fact, very few businesses) want to become multinationals. The objectives of smaller businesses can include:

Objective	Relevance to Smaller Firms
Survival	A key objective for startup firms and many smaller firms. Whilst small firms may have lower costs, over-reliance on one or a few products can threaten survival.
Revenue Maximisation	May be a key objective for smaller firms, although they are often keen to grow sales from a low base level.
Profit Maximisation	Smaller firms may initially earn lower absolute levels of profit (because their resources are lower). However, they can still achieve high profit margins if operating in a suitable niche market.
Cost Efficiency & Scale	Smaller firms may initially benefit from economies of scale although they may be unable to exploit a low cost base low.
Customer Service	Smaller firms are often associated with higher levels of customer service and satisfaction when the business owner is closely involved with the provision of customer service.

So Why Stay Small

Amongst the key reasons why businesses may prefer to stay small are:

- Product differentiation & USPs
- Flexibility in meeting customer needs
- Deliver high standard of customer service
- Exploit opportunities from e-commerce

Product Differentiation & USPs

- Positioning a business as “small” can help differentiate against competitors
- Customer perception may be an expectation of a better product from a business that “cares”
- More scope for adding value through the provision of specialist expertise (e.g. advice)

Flexibility in Meeting Customer Needs

- Many small businesses talk to their customers regularly; sometime every day
- Small firms often communicate in the customers’ language which give the impression to the customer that they are more in tune with their needs

Topic: Reasons for Staying Small

3.2 Business Growth

- Makes it easier to get customer feedback (larger firms often struggle with this)

Delivery of High Standard of Customer Service

- Most small businesses operate in the “service” sector, so this is a key source of competitive advantage
- Employees in smaller firms are likely to treat customer service as a priority (compared with larger firms) though there is no guarantee that smaller firms deliver better customer service!

Opportunities from E-Commerce

E-commerce is an obvious (and increasingly common) way for small firms to reach a broader customer base

It is now relatively easy for a small firm to target niche segments both domestically and overseas using e-commerce

Smaller firms, provided they are confident with its use, can gain significant traction with customers using social media

Topic: Shareholders versus Stakeholders

3.4 Influences on Business Decisions

What You Need to Know

Internal & external stakeholders
Stakeholder objectives
Stakeholder & shareholder influences
Potential for conflict between shareholders and stakeholders

What is a Stakeholder?

A stakeholder is any individual or organisation who has a **vested interest** in the activities and **decision making** of a business.

Shareholders (the owners of a business) are one example of stakeholders, but the two terms are easily confused. There is a difference:

Shareholders	Other Stakeholders
Own the business	Have an interest in the activities of the business – but do not own it
May also work in the business	May work for (employees) or otherwise transact with the business
Benefit directly from increased value of the business	Can benefit from the success of the business, but don't directly share the value of the business

Of course it is possible to be both a shareholder and a stakeholder. For example, employees are often shareholders in a business (particularly larger firms with a public stock market quotation).

Main Stakeholders in a Business

The key stakeholders in a business can be grouped as follows:

INTERNAL	CONNECTED	EXTERNAL
<i>Internal to the business</i>	<i>Connected by a relationship based on a contract</i>	<i>Relationship not based on a contract</i>
Managers & employees	Customers	Government
Shareholders /owners	Suppliers	Competitors
	Creditors	Society

Topic: Shareholders versus Stakeholders

3.4 Influences on Business Decisions

Key Interests of Main Stakeholder Groups

Stakeholders have different interests in the activities of a business. For example:

STAKEHOLDER	MAIN INTERESTS
Shareholders / owners	Return on investment + profits and dividends Success and growth of the business Proper running of the business
Management & employees	Rewards, including basic pay and other financial incentives Job security & working conditions Promotion opportunities + job satisfaction & status – motivation, roles and responsibilities
Customers	Value for money Product quality & customer service
Suppliers	Continued, profitable trade with the business Financial stability – can the business pay its bills?
Banks & other finance	Can the business repay amounts loaned or invested? Profitability & cash flows of the business Growth & future value of the business
Government	The correct collection and payment of taxes (e.g. VAT) Encouraging the business to grow – creating jobs Compliance with health & safety legislation
Society	Successful businesses – particularly creating and retaining jobs Compliance with local laws and regulations (e.g. noise, pollution)

Managing Conflicts Between Stakeholders

Given their different interests in the business, inevitable **conflicts** arise between stakeholders. For example:

Business Decision	Likely to be Supported By	Possibly Opposed By?
Cut jobs to reduce costs	Shareholders Banks	Employees Local community
Add extra shifts to increase factory capacity	Management Customers & suppliers	Local community
Introduce new machinery to replace manual work	Customers Shareholders	Employees
Increase selling prices significantly to improve profit margins	Shareholders Management	Customers

To manage its stakeholders well, a business effectively to make choices. It is very difficult to meet the needs of every stakeholder group and most decisions will end up being “win-lose”: i.e. supporting one stakeholder means another misses out. How should a business respond to variations in stakeholder power and influence? The matrix below provides some guidance on the approach often taken:

Topic: Shareholders versus Stakeholders

3.4 Influences on Business Decisions

	High Level of Stakeholder Interest	Low Level of Stakeholder Interest
High Level of Stakeholder Power	Key players Take notice of them Engage directly with them	Keep them satisfied
Low Level of Stakeholder Power	Communicate regularly with them	Communicate only when necessary

Key terms

Shareholder	An owner of a business
Stakeholder	Someone who has an interest in the activities of a business

Topic: Causes and Effects of Change

3.6 Managing Change

What You Need to Know

Causes of change: changes in organisational size | poor business performance | new ownership | transformational leadership | market & other external factors (PESTLE)
Possible effects of change: competitiveness | productivity | financial performance | stakeholders


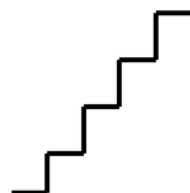
What is Change Management?

Change management involves the **process** that ensures a business responds to the **environment** in which it operates

Key types of Change: Incremental, Step and Disruptive

Classifying change into different categories based on the degree and nature of change is a key part of understanding the context for change management.

A classic way of classifying change is to compare Step change with Incremental Change. The table summarises below.

Step Change Significant & occurs rapidly	Incremental Change Many small and frequent changes
	
Key features: Dramatic or radical change in one fell swoop Often required when a business has suffered from strategic drift Often involves significant alteration in the business Gets it over with quickly / decisively May require some coercion to overcome resistance	Key features: Many small changes which take place as a business develops and responds to subtle changes in the external environment Often gradually overcomes resistance Arises as strategy develops Often not noticed A culture of acceptance and embracing incremental change may develop

Disruptive Change

This is a form of step change that arises from changes in the external environment which impact the market as a whole.

Disruptive change impacts the market as a whole, challenging the established "business model" (i.e. how products and services are sold).

Rapid improvements in technology are the main driver of disruptive change since technological innovation provides new ways of delivering goods and services as well as reducing barriers to market entry.

Topic: Causes and Effects of Change

3.6 Managing Change

Internal and External Causes of Change

A distinction can be made in terms of the causes of change between those that are “**internal**” (i.e. **within the control of the business**) and those that are “**external**” (i.e. **outside of the control of the business** but which still need to be addressed).

Internal Causes of Change	External Causes of Change
<i>Arise from factors within the control of the business – i.e. the decisions taken by management</i>	<i>Arise from factors outside the control of the business – i.e. as a result of changes in the external environment</i>
Examples: New leadership Change in strategic direction & corporate objectives Significant investment decisions Changes to business activities (e.g. product line closure) Adjusting the organisational structure (e.g. delayering)	Examples: Significant competitor actions (e.g. new products, takeovers) Political & legal changes (e.g. deregulation or new taxes) Significant changes in economic environment (e.g. post Brexit for UK firms) Longer-term changes in society (e.g. lifestyles, demographics) Technological change (e.g. rapid growth or mobile device usage and related market disruption)

Possible Effect of Effective Change

Whilst change is often viewed as a negative by many, it is an essential part of business life.

The external environment, in particular, is constantly changing, which makes change a constant too!

If a business is able to implement change effectively, the potential business benefits may arise:

- It may help sustain a competitive advantage (and respond to competitor changes)
- Aligns business strategy with evolving nature of customer needs & wants
- Business may be better able to take advantage of developing technologies
- Stakeholders (employees, shareholders etc.) should gain from improved productivity and work environment
- Change in organisational structure may enable a business to improve the effectiveness of its communication and decision-making
- Being perceived as a business that leads change rather than follows may bring market benefits (e.g. developing a reputation for innovation)

Key Terms

Change management	The process that ensures a business responds to the environment in which it operates
--------------------------	--

Topic: Causes and Effects of Change

3.6 Managing Change

Step change	Significant and often transformational change that is significant to the business
Incremental change	Small, frequent and relatively insignificant changes to the business
Disruptive change	Change that arises from changes in the external environment which impact the market as a whole.

SAMPLE